

DYNAMIC LIVE

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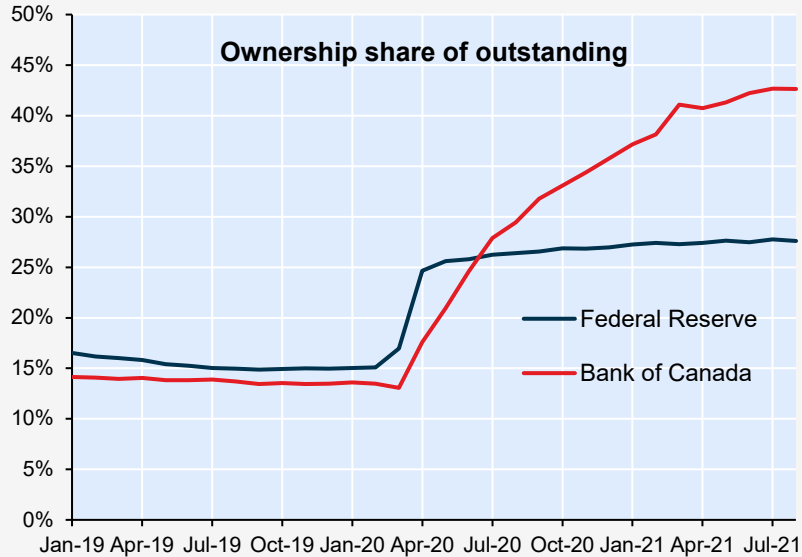
Life After T.I.N.A.

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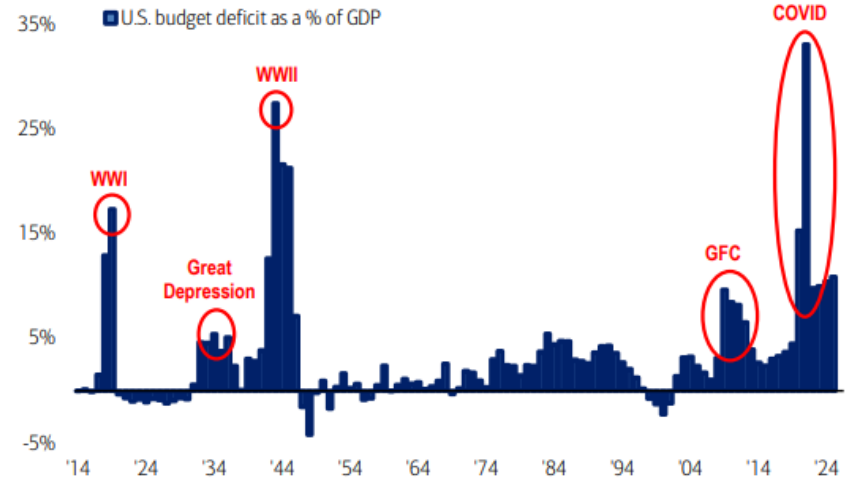
What is T.I.N.A.*?

Accommodative monetary policy and fiscal stimulus

QE: Hungry-hungry hippo



Unprecedented outside of wartime



Source: BofA Global Investment Strategy, Haver, CBO

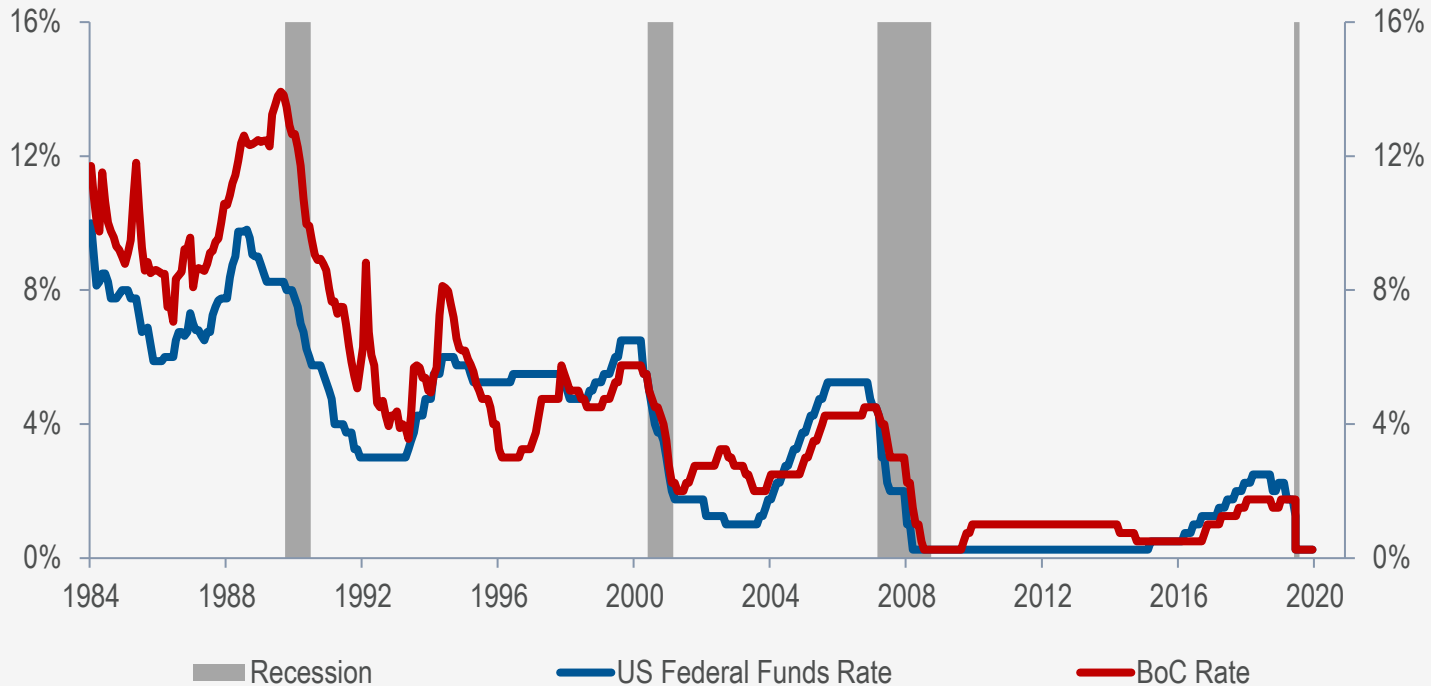
*T.I.N.A is an acronym for “There is no alternative”

Sources: 1832 Asset Management.

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How does T.I.N.A. end?

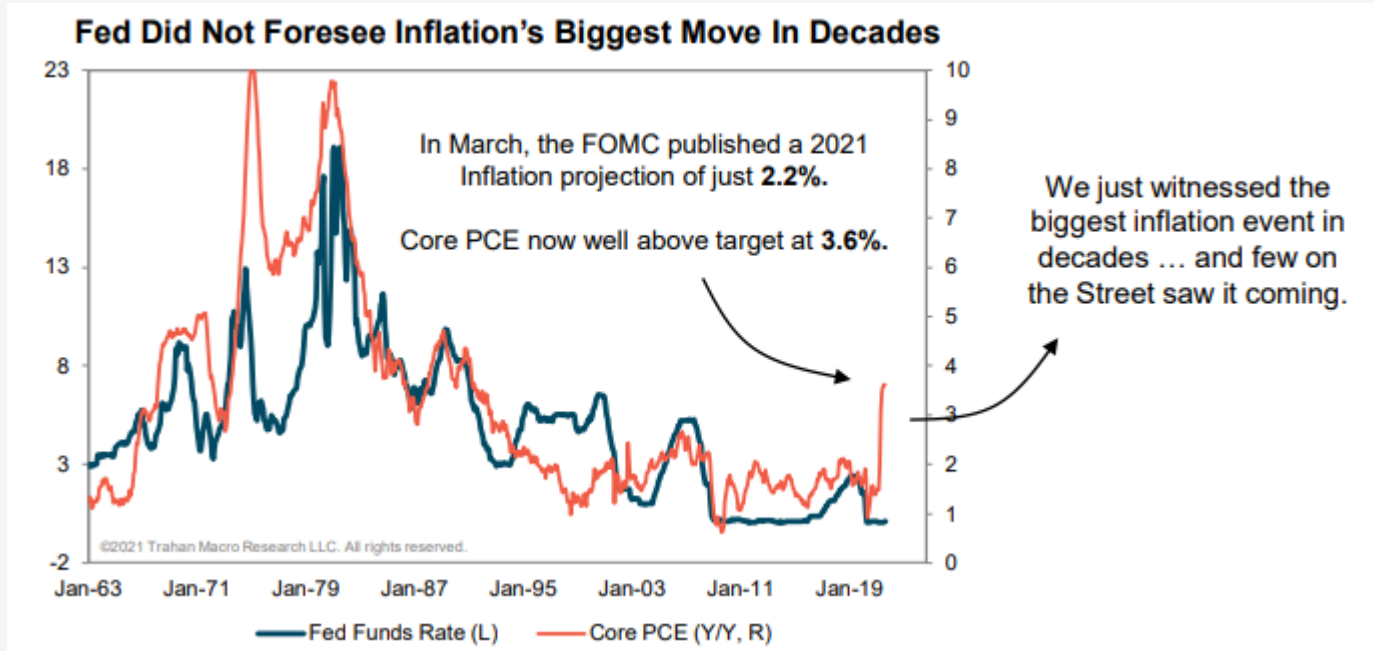
When the Fed unwinds its accommodation and rates rise



Sources: bankrate.com, Bank of Canada website, as of 08/31/2021.

Fed Dilemma?

Inflation inconsistent with current monetary policy



Transitory or not?

Consider the following Fed quotes

“...the recent uptick in price measures partly reflected factors, such as jumps in energy and non-oil import prices, unlikely to be repeated - May 4 Minutes of FOMC

“Although incoming inflation data are somewhat elevated, a portion of the increase ... due to transitory factors.” June 30 Fed Release

“Inflation has risen, largely reflecting transitory factors” – July 28, Minutes of FOMC

Transitory or not?

Looks a lot like 2004

“...the recent uptick in price measures partly reflected factors, such as jumps in energy and non-oil import prices, unlikely to be repeated - May 4, **2004**
Minutes of FOMC

“Although incoming inflation data are somewhat elevated, a portion of the increase ... due to transitory factors.” June 30, **2004** Fed Release

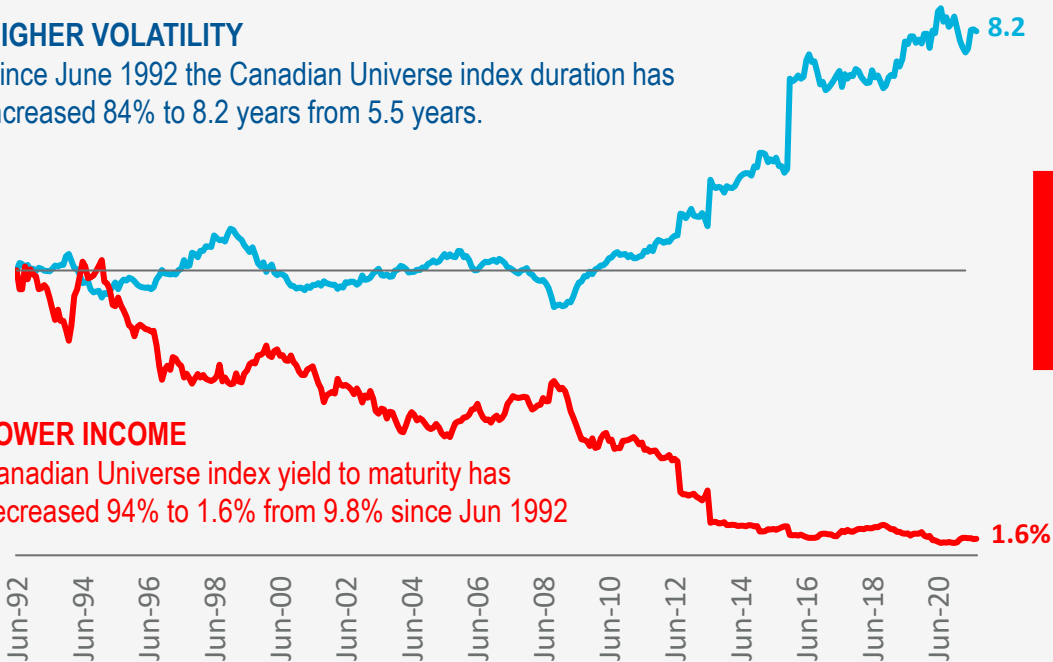
“Inflation has risen, largely reflecting transitory factors” – July 28, **2021**
Minutes of FOMC

What about fixed income?

Traditional fixed income will be in a tough spot

HIGHER VOLATILITY

Since June 1992 the Canadian Universe index duration has increased 84% to 8.2 years from 5.5 years.



An instantaneous 1% increase in yield leads to a ~8% loss

Life after T.I.N.A.

Turn down the Beta and turn up the Alpha

- **Credit Absolute Return** : Dynamic Credit Absolute Return Fund / Liquid Alt
- **Crossover Bonds**: Dynamic Crossover Bond Fund
- **Preferred Shares**: Dynamic Preferred Yield Class

		DCARF DCARFII	DXO	DPYC
	Traditional Fixed Income	Credit Absolute Return	Crossover Bonds	North American Preferred Shares
Interest Rate Sensitivity	High	Minimal	Low	Negative
Income	Low	High	High	High
Default Risk	Minimal	Low	Declining	Low
Correlation to Equities	Low or High?	Low	High	High

Source: Bloomberg

Why Preferred Shares?

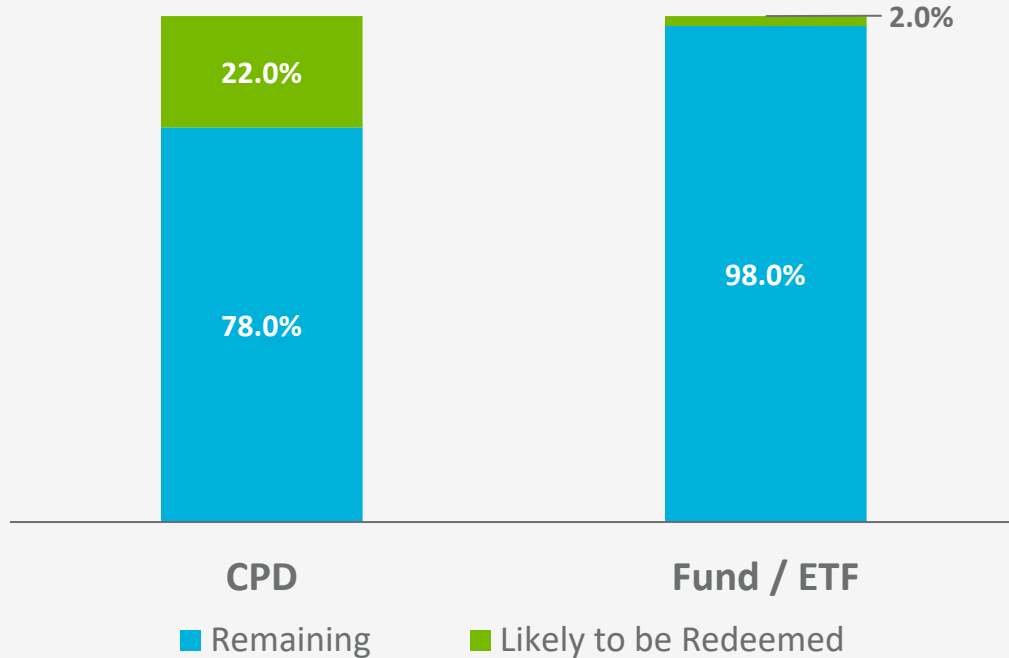
Valuation, negative duration & redemptions



Still a bit more to go before catching up to IG and HY, and we expect another \$2B in redemptions before year-end

Why Dynamic Funds?

Turn down the Beta and turn up the Alpha






We are positioned to best take advantage of index rebalancing flows and upcoming redemptions.

Sources: 1832 Asset Management L.P., Bloomberg. *iShares S&P/TSX Canadian Preferred Share Index ETF, for illustrative purposes only

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Why Dynamic Funds?

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Investment thesis	Rising Star	Rising Star	Rising Star
Price	\$108.6	\$106	\$105.6
YTM	3.30%	3.25%	3.10%
Rating	BB	BB	BB+
	<ul style="list-style-type: none"> • Clear path to Investment Grade • Growing US national car dealership network • Strong FCF generation 	<ul style="list-style-type: none"> • Clear path to Investment Grade • Largest US exporter of Liquefied Natural Gas • Long term Take-or-Pay contracts with strong credit counterparties 	<ul style="list-style-type: none"> • Clear path to Investment Grade • Vertically integrated food producer • Enhanced growth and margin profile through M&A

Why Dynamic Funds?

Turn down the Beta and turn up the Alpha



- Expensive Valuation = No **M**argin for error
- Negative Catalyst = **M**ajor environmental liability
 - PFAS (Highly toxic fluorinated chemicals)
 - Liability estimated to be in the \$15-\$20 billion range
 - Reserves taken to date = <\$1 billion
 - Potential 2 notch downgrade
- Right Security = Long bonds have most potential to **M**ove down

Conclusion

- We're in a tough environment to allocate capital in fixed income
- But things can stay like this for a while
- To prepare for life after T.I.N.A. shift the focus from Beta to Alpha
- The Specialised Credit Team is here to help with a lineup of flexible mandates

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